

VZCZCXRO8854  
PP RUEHCHI  
DE RUEHHI #0774 1840934  
ZNR UUUUU ZZH ZDK  
P 020934Z JUL 08  
FM AMEMBASSY HANOI  
TO RUEHC/SECSTATE WASHDC PRIORITY 8092  
INFO RUEHHM/AMCONSUL HO CHI MINH 4899  
RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUCPDOG/USDOC WASHDC

UNCLAS HANOI 000774

SENSITIVE  
SIPDIS

SINGAPORE FOR TREASURY  
TREASURY FOR SCHUN  
USTR FOR DBISBEE  
STATE FOR EEB/IFD

E.O. 12958: N/A  
TAGS: [EFIN](#) [ECON](#) [ETRD](#) [VM](#)  
SUBJECT: SBV CAN'T SEE THE FOREX FOR THE TREES

REF: Hanoi 634

11. (SBU) On June 26, the State Bank of Vietnam (SBV) issued Official Letter 5728 prohibiting banks from performing dollar-dong trades through a third currency. Previously, some banks had been trading from dong to a third currency (often Euros) and then into dollars in an attempt to circumvent the official dong/dollar exchange rate established by the SBV. The SBV also widened the dollar-dong trading band from one percent to two percent, a move pledged by the Prime Minister months ago but not implemented until now. At the same time, the SBV declared that it will "inspect and supervise" all banks to ensure compliance with these new regulations. In line with this most recent announcement, contacts at the commercial banks tell us that the SBV has been sending teams of inspectors and police out to "interview" banking officials since the dong devalued a few weeks ago (reftel).

12. (U) Reaction to the widening of the trading band has been generally positive, with analysts noting that it will bring the value of the dong closer to the more realistic black market rate. The black market seems to have settled since the announcement, hovering around 17,500 dong per dollar, down from 18,000 to 18,500 and even 19,000 in the weeks prior. Conversely, the prohibition on third currency trades has been widely criticized for closing one of the last loopholes available for those who need dollars but cannot get them via official channels. As reported previously, the SBV is tightly controlling dollar lending, doling out dollars only for certain preferred imports such as petroleum products and pharmaceuticals or to certain state owned enterprises (SOEs). The use of gold as an intermediary between dong and dollar exchanges seems to be the last safety valve available to meet the foreign exchange needs of individuals/firms who do not qualify under normal trading rules. Press reports in HCMC indicate that exporters, particularly smaller ones, are using gold to pay export shipping fees. In response to the shift towards gold, the GVN suspended the importation of gold last week, although it is not clear how long the suspension will be in effect.

13. (SBU) Expatriates paid in local currency also paint a discouraging picture: the amount of dollars they are allowed to buy is limited by the banks (e.g., HSBC HCMC retail customers can convert 500 USD/day); when they buy dollars, many banks charge additional "transaction fees" and "documentation fees" that raise the official rate to something suspiciously close to the black market rate; and the amount of dollars they are allowed to repatriate is strictly controlled by the banks (e.g., HSBC HCMC retail customers can repatriate 500 USD/day). Banks tell customers these regulations are the result of GVN regulations and monetary policy. In turn, customers look for ways around the official rates, for example, taking advantage of the fact that locally issued credit card charges in dollars must be converted to dong at the official

rate for payment in Vietnam, shifting the conversion cost from customers to the banks.

ALOISI